Executive **24th June 2021**

Report of the Chief Finance Officer
Portfolio of the Executive Member for Finance & Performance

Treasury management annual report and review of prudential indicators 2020/21

Summary

1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3. This report also confirms that the Council has complied with the requirement under the Code to give prior scrutiny to treasury management reports by Audit & Governance Committee.

Recommendations

4. Executive is asked to:

    Note the 2020/21 performance of treasury management activity and prudential indicators outlined in annex A.

    Reason: to ensure the continued performance of the treasury management function can be monitored and to comply with statutory requirements.

Background and analysis

The Economy and Interest Rates

5. Investment returns which had been low during 2019/20, plunged during 2020/21 to near zero or even into negative territory. Most local authority lending managed to avoid negative rates and one feature of the year was the growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2020/21 was that Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the Covid-19 pandemic which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the impact of the national lockdown on the economy. The Bank of England and the Government also introduced new programmes of supplying the banking system and the economy with cheap credit so that banks could help businesses to survive the lockdown. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

Overall treasury position as at 31 March 2021

6. The Council's year end treasury debt and investment position for 2020/21 compared to 2019/20 is summarised in the table below:

Debt	31/03/2021 £m	Average Rate %	31/03/2020 £m	Average Rate %
General Fund debt	151.6	3.32	110.1	3.83
Housing Revenue Account (HRA) debt	146.4	3.23	146.4	3.31
PFI	45.2	n/a	46.3	n/a
Total debt	343.2	3.27	302.8	3.54
Investments				
Councils investment balance	8.3	0.17	13.9	0.74

Table 1 summary of year end treasury position as at 31 March 2021

Borrowing requirement and debt

7. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2021 Actual £m	31 March 2021 Budget £m	31 March 2020 Actual £m
CFR General Fund	249.9	304.0	225.1
CFR HRA	146.4	146.4	146.4
PFI	45.2	49.2	46.3
Total CFR	441.5	499.6	417.8

Table 2 capital financing requirement

Borrowing outturn for 2020/21

8. During 2020-21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

9. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

10. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future. These spare cash balances have now been used and therefore we are starting to borrow again, as was outlined in the 2020/21 budget reports in February 2020.

11. During 2020/21 the following new loans were taken. The total of new loans was £51.5m. This borrowing was anticipated and is as a result of the progress made in delivering the capital programme. The associated revenue implications were included in the annual budget setting process.

Lender	Issue Date	Repayment Date	Amount £	Rate	Duration
PWLB	28/05/2020	28/05/2032	5,000,000	2.110%	12.00
PWLB	29/09/2020	16/04/2035	5,000,000	2.340%	14.54
PWLB	30/10/2020	15/04/2036	5,000,000	2.380%	15.46

PWLB	29/01/2021	15/04/2037	5,000,000	1.500%	16.21
PWLB	12/02/2021	15/04/2038	5,000,000	1.750%	17.17
PWLB	22/02/2021	15/04/2039	5,000,000	1.930%	18.14
PWLB	26/02/2021	15/06/2040	6,500,000	2.120%	19.30
PWLB	22/03/2021	15/07/2031	10,000,000	1.790%	10.31
PWLB	31/03/2021	15/07/2042	5,000,000	2.080%	21.29

Table 3 – New loans in 2020/21

12. During 2020/21 the following existing loans matured. The total of maturing loans was £10.0m

Lender	Issue Date	Repayment Date	Amount £	Rate	Duration
PWLB	25/05/2010	05/05/2020	5,000,000	3.700%	9.95
PWLB	07/11/2011	07/11/2020	5,000,000	3.140%	9.00

Table 4 – Maturing loans in 2020/21

13. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Investment outturn for 2020/21

14. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 27th February 2020. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

15. The Council maintained an average investment balance of £15.690m in 2020/21 compared to £48.699m in 2019/20. The surplus funds earned an average rate of return of 0.17% in 2020/21 compared to 0.74% in 2019/20. Again, this has been a planned reduction of average balances held. As outlined in paragraph 10 above cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimised counterparty risk.

16. The comparable performance indicator for the Councils investment performance is the average London Inter Bank Bid Rate (LIBID) which represents the average interest rate at which major London banks borrow from other banks. Table 3 shows the rates for financial year 2020/21 and shows that for all cash holdings the rate of return exceeds the levels of the usual 7 day and 3 month benchmarks.

Benchmark	Benchmark Return	Council Performance
7 day	-0.07	0.17
3 month	0.015	0.17

Table 4 – LIBID vs. CYC comparison

Consultation

17. The report has been reviewed and scrutinised by Audit and Governance Committee on 16th June 2021.

Options

18. Not applicable.

Council Plan

19. Effective treasury management ensures the Council has sufficient liquidity to operate, safeguards investments, maximises return on those investments and minimises the cost of debt. This allows more resources to be allocated for delivering the Council's priorities as set out in the Council Plan.

Implications

20. This report has the following implications:

- **Financial** are contained throughout the main body of the report.
- **Human Resources (HR)** There are no HR implications.
- **One Planet Council / Equalities** There are no One Planet Council or equalities implications.
- **Legal** Treasury management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice.

- **Crime and Disorder** There are no crime and disorder implications.
- **Information Technology (IT)** There are no IT implications.
- **Property** There are no property implications.
- **Other** There are no other implications.

Risk Management

21. The treasury function is a high-risk area due to the large value transactions that take place. As a result, there are strict procedures set out as part of the treasury management practices statement. The scrutiny of this and other monitoring reports is carried out by Audit and Governance Committee as part of the Council's system of internal control.

Contact Details

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<tr><td colspan="4">Wards Affected: List wards or tick box to indicate all</td><td>All</td><td>✓</td></tr>
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Background Papers:
None

Annexes:
Annex A: Prudential Indicators 2020/21

List of Abbreviations Used in this Report

CIPFA - Chartered Institute of Public Finance & Accountancy
MRP - Minimum Revenue Provision
CFR - Capital Financing Requirement
MPC - Monetary Policy Committee
PWLB - Public Works Loan Board
CLG – (Department for) Communities and Local Government
LIBID – The London Interbank Bid Rate